

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 11 RANGOON 001623

SIPDIS

STATE FOR INL/AAE, EAP/BCLTV, L/LEI; JUSTICE FOR OIA,  
AFMLS, NDDS; TREASURY FOR FINCEN; DEA FOR OILS AND OFFICE  
OF DIVERSION CONTROL

E.O. 12958: N/A

TAGS: [EFIN](#) [KCRM](#) [PTER](#) [BM](#) [TAGS](#)

SUBJECT: BURMA: 2003-2004 INTERNATIONAL NARCOTICS CONTROL  
STRATEGY REPORT (INCSR)

REF: A. STATE 328024

[B](#). STATE 324347

## [I](#). Summary

[1](#)1. Burma is the world's second largest producer of illicit opium and the second largest cultivator of opium poppy. The gap between Burma and the number one producer of illicit opium and number one cultivator of poppy, Afghanistan, increased considerably in 2003. Burma remains the primary source of amphetamine-type stimulants (ATS) in Asia, producing hundreds of millions of tablets annually. Although still a major producer of illicit opium, Burma's overall production in 2003 declined substantially for the seventh straight year. According to the joint U.S./Burma opium yield survey, opium production in Burma totaled no more than 484 metric tons in 2003, down more than 23 percent from a year earlier, and a fraction of the 2,560 metric tons produced in Burma in 1996. Burma's opium is grown predominantly in Shan State, in areas controlled by former insurgent groups. Since the mid-1990s, however, the government has elicited "opium-free" pledges from each cease-fire group and, as these pledges have come due, has stepped up law enforcement activities in areas controlled by these groups. The ethnic Wa group in northeastern Shan State has pledged to end opium production and trafficking at the end of the 2005 poppy harvest, but the government has done little to curb its current cultivation and production activities. Wa cultivators now account for approximately 52 percent of Burma's total poppy crop. Major Wa traffickers continue to operate with apparent impunity, and United Wa State Army (UWSA) involvement in methamphetamine production and trafficking remains a serious concern. During the 2003 drug certification process, the USG determined that Burma had "failed demonstrably" to meet its international counternarcotics obligations.

[1](#)2. Over the past several years, the Burmese government has extended significantly its counternarcotics cooperation with other states. In 2001, it signed counternarcotics (Memoranda of Understanding) MOUs with both China and Thailand, and has joined with China in annual joint operations in the northern and eastern Shan State, which resulted in the destruction of several major drug trafficking rings, including a group that the Chinese called one of the largest "armed drug smuggling groups in the Golden Triangle area." Cooperation with Thailand increased considerably in 2003 as the Thai government pursued an aggressive domestic "drug-free" policy. The Thai Prime Minister and other cabinet-level officials visited Burma in 2003 to discuss counterdrug cooperation with senior leaders of the Burmese military government.

[1](#)3. The Burmese government released long-awaited money laundering regulations in December 2003. These regulations are designed to allow implementation of a 2002 money laundering law which, in response to rising international concerns regarding the quality of its anti-money laundering regime, criminalized money laundering in connection with virtually every type of major criminal activity. The new regulations lay out eleven predicate offenses including involvement in narcotics, human and arms trafficking, smuggling, counterfeiting, hijacking, cyber crime, illegal operation of a financial institution, and "offenses committed by acts of terrorism." Money laundering is punishable by imprisonment and the regulations will be applied retroactively to June 2002.

[1](#)4. Burma is a party to the 1961 UN Single Convention, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention.

## II. Status of Country

[1](#)5. Burma is the world's second largest producer of illicit opium. However, eradication efforts, enforcement of poppy-free zones, alternative development, and a shift toward synthetic drugs have combined to depress cultivation levels for the past three years. 2003 was the first year that weather was not a major factor in the declining poppy cultivation trend. According to the joint U.S./Burma opium

yield survey, the total land area under poppy cultivation in Burma was 47,130 hectares in 2003, a 39 percent decrease from the 77,700 hectares under cultivation in 2002. Estimated opium production in Burma totaled approximately 484 metric tons in 2003, a 23 percent decrease from 630 metric tons in 2002, and less than one fifth of the 2,560 metric tons produced in Burma in 1996 (a 71 percent decline in eight years). Although climate was not a factor in declining cultivation in 2003, improved weather conditions during critical growth periods did improve yields for the region's poppy farmers. In 2003, yields rose to 10.3 kilograms/hectare, a substantial increase from the previous year (estimated at 8.1 kilograms/hectare) and a return to the robust yields of the early and mid-1990s though still less than the peak level recorded in 1996.

16. Burma also plays a major role in the regional traffic in amphetamine-type stimulants (ATS). Drug gangs based in the Burma/China and Burma/Thailand border areas annually produce several hundred million methamphetamine tablets for markets in Thailand, China, and India on the basis of precursors imported from neighboring states. Burma itself does not have a chemical industry and does not produce any of the precursors for methamphetamine or other artificial drugs. In 2003 there were troubling signs that a nascent domestic market for ATS began to emerge in Burma, although deteriorating economic conditions will likely stifle significant growth in consumption. During the first ten months of 2003, ATS seizures totaled less than 4 million tablets, a decline from previous modest levels of approximately 10 million tablets seized per year. Aside from these seizures, the government did not take significant steps to stop ATS production and trafficking. Opium, heroin, and ATS are produced predominantly in Shan State, in areas controlled by former insurgent groups. Starting in 1989, the Burmese government negotiated a series of individual cease-fire agreements, allowing each group limited autonomy and a measure of development assistance in return for peace. Initially, these agreements permitted the former insurgents to continue their narcotics production and trafficking activities in relative freedom. Since the mid-1990s, however, the Burmese government has elicited "opium-free" pledges from each cease-fire group and, as these pledges have come due, has stepped up law-enforcement activities in the respective cease-fire territories. Although virtually the entire opium crop is cultivated in the eastern Shan State, there is also minor and widely scattered cultivation in the States of Chin, Kachin, and Kayah and in Sagaing Division.

17. In 2003, the Burmese government continued its counternarcotics activities, primarily poppy crop eradication, in the Kokang region of northeastern Shan State controlled by Peng Jiasheng's Myanmar National Democratic Alliance Army (MNDAA), which had pledged to be opium-free by 2000. The government applied only modest pressure on the Wa in 2003, claiming it cannot crack down faster because the Wa's opium-free pledge does not come due until the end of the 2005 poppy harvest. Premature action against the Wa, the government claims, would jeopardize Burma's national security, as the UWSA is a formidable military force. Under the terms of the cease-fire agreements, the Wa and other groups involved in the drug trade are largely immune from government action. For instance, Burmese troops cannot enter Wa territory without permission from the UWSA and the GOB is unwilling to risk confronting the Wa, a potent organization with a well-manned and well-trained military force.. However, the government continued a more aggressive stance on its own travel in Wa territory, merely informing UWSA officials of such visits rather than seeking advance permission. Nevertheless, the government has yet to put significant pressure on the Wa to stop illicit drug production or trafficking.

18. UNODC and joint USG/GOB 2003 opium poppy survey results demonstrated partially effective enforcement of poppy-free zones, but may also indicate a shift toward synthetic drugs. Substitute crops and alternative development projects that would provide farmers economically viable alternatives to poppy cultivation have not replaced opium production and its profitability. For regions to become truly drug free, the government must make a considerable commitment, assisted where possible by the international community, to undertake an extensive range of counternarcotics actions, including crop eradication, effective law enforcement, and alternative development. The government must foster cooperation between the government and the ethnic groups involved in drug production and trafficking, including the Wa, to eliminate poppy cultivation and opium production.

19. The GOB must also address the explosion of ATS that has flooded Thailand and is trafficked to other countries in the region. A domestic market for the consumption of ATS also emerged in Burma, a disturbing trend that, although less significant than other societal woes, could prove to be a destabilizing factor in the long-term. The UNODC estimated that in 2003 there were at least 15,000 regular ATS users in

Burma. The GOB must make a firm commitment and a concerted effort to stop production of ATS by gaining support and cooperation from the ethnic groups, including the Wa, involved in ATS, as well as through closing production labs and preventing the diversion of precursor chemicals needed to produce synthetic drugs. No ATS labs were reported destroyed in 2003.

10. Burma has a small, but growing drug abuse problem. While the government maintains that there are only about 70,000 registered addicts in Burma, surveys conducted by UNODC, among others, suggest that the addict population could be as high as 300,000 (i.e. still less than 1 percent of the population), with opium the major source of addiction (135,000 regular users of heroin, including up to 30,000 intravenous drug users). Recreational use of illicit drugs, including ATS, is on the rise. There is also a growing HIV/AIDS epidemic, linked in part to intravenous drug use. According to surveys, 57 percent of all intravenous drug users in Burma have tested positive for the HIV/AIDS virus. Infection rates are highest in Burma's ethnic regions, and specifically among mining communities in those areas, where opium, heroin, and ATS are readily available.

11. Money laundering is also an area of concern. In November 2003 the Financial Action Task Force (FATF) called upon member countries to impose countermeasures against Burma for its failure to pass a mutual legal assistance law and its failure to issue regulations to accompany the "Control of Money Laundering Law" passed in 2002. Burma responded by releasing new money laundering regulations on December 5, 2003, but has yet to address the mutual legal assistance law issue.

### III. Country Actions Against Drugs in 2003

12. Policy Initiatives. Burma's official 15-year counternarcotics plan calls for the eradication of all narcotics production and trafficking by 2014, one year ahead of an ASEAN-wide plan of action that calls for the region to be drug-free by 2015. The plan is to proceed by stages, with eradication efforts coupled to alternative development programs in individual townships, predominantly in Shan State. Altogether, the GOB identified 54 townships for the programs and targeted 25 of them during the first five years of the program.

13. The government has received limited international assistance in support of these efforts. The most significant multilateral effort is the UN Office of Drugs and Crime's (UNODC) Wa Alternative Development Project (WADP), which is financed by the United States, Japan, and Germany. A five-year, \$12.1 million program, this supply-reduction project encourages alternative development in a small portion of the territory controlled by the United Wa State Army. UNODC extended the project from 2003 until 2005 and expanded the number of villages targeted for community development work from 4 to 16. Also in 2003, the UNODC and the Japanese government announced plans to establish an intervention in the Wa and Kokang areas (dubbed "KOWI") aimed at supporting the humanitarian needs of farmers who have abandoned poppy cultivation. A joint humanitarian assessment, consisting of UN agencies and NGOs, traveled to the Kokang and Wa areas earlier in the year and concluded that farmers had lost up to 70 percent of their income and were increasingly susceptible to disease, internal displacement, and food insecurity. Several international NGOs have partnered with the UNODC, and Japan and Italy were early donors.

14. Bilateral counternarcotics projects include a small, U.S.-financed project in northern Shan State (Project Old Soldier) and a substantial Japanese effort to establish buckwheat as a cash crop in the Kokang and Mong Ko regions of northeastern Shan State. The Thai government has since 2001 extended its own alternative development projects across the border into the Wa-controlled Southern Military Region of Shan State.

15. Burma hosted several multilateral counterdrug meetings in 2003, including a precursor control meeting in January with India, China, and UNODC; a precursor control meeting in July with India, China, Thailand and Laos; and, in October, the law enforcement task force of the ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD). Burma also participated in a Mekong fact-finding survey in July with China, Laos, and Thailand and a precursor control meeting in Thailand that included India, China, Laos, and Thailand. The five countries agreed on cross-border cooperation to stop the flow of precursor chemicals among the countries of the Mekong river sub-region.

16. The Government of Burma supported a UNODC effort in 2001 to form a "Civil Society Initiative" (CSI) to conduct awareness activities and programs regarding the dangers of drug abuse and HIV/AIDS. The CSI, which partnered with NGOs

and local celebrities, held a successful anti-drug concert and marathon in 2002. However, the GOB failed to support a two-day anti-drug music festival in 2003, which was subsequently canceled.

17. Narcotics Seizures: Summary statistics provided by Burmese drug officials indicate that during the first ten months of 2003 Burmese police, army, and the Customs Service together seized approximately 1,247 kilograms of raw opium, 488 kilograms of heroin, 78 kilograms of marijuana, 102 kilograms of methamphetamine powder, 156 kilograms of morphine, and 4.5 million methamphetamine pills. This compares with seizures during all of 2002 of 1,631 kilograms of raw opium, 285 kilograms of heroin, and 8.8 million methamphetamine pills. Heroin seizures, almost double the previous year, were at the highest levels since 1997. Seizures of ATS in 2003 continued a downward trend and may be related to adjustments in trafficking patterns or to Thailand's aggressive 2003 "drug free" policy, which greatly reduced the market for Burma-produced ATS, at least in the short-term. The relatively tiny amount of ATS seized (less than 4 million tablets) had no effect on the scope of the growing problem.

18. The Ministry of Health identifies 25 substances as precursor chemicals and prohibits their import, sale, or use in Burma. Seizures of precursor chemicals declined substantially during the first ten months of 2003 and included 266 kilos of ephedrine, 2,540 liters of acetic anhydride, and 37,557 liters of other precursor chemicals. In 2002, the first year the GOB issued a notification identifying illegal precursor chemicals, the totals were substantially higher: 3,922 kilos of ephedrine, 12,318 liters of acetic anhydride, and 174,191 liters of other chemicals.

19. Major cases in 2003:

-- In cooperation with the United States Drug Enforcement Administration (DEA), police in India, China, Canada, and Burma contributed to the arrest of a total of thirty narcotics suspects in all five countries and the seizure of approximately 36 kilograms of heroin and one ATS laboratory. -- In cooperation with China, Burmese police contributed to a series of arrests and seizures throughout 2003 along the Chinese border. Since 2001, Burma has turned over 22 fugitives to China, including members of one group (Tan Xiao Lin and company), which China described as the "largest armed drug-trafficking gang in the Golden Triangle."

-- During a nine-day operation at the end of March near Taunggyi in western Shan State, Burmese authorities seized 68.6 kilograms of morphine, 42 kilograms of opium, 720 liters of precursor chemicals, and a cache of weapons and ammunition.

-- On February 1, 2003, Burmese authorities located and dismantled a clandestine heroin refinery near Kutkai township. A search of the site revealed 404 liters of ethyl alcohol and other precursors and drug production paraphernalia.

-- On July 17, 2003, Burmese authorities located and dismantled a clandestine heroin refinery near Kutkai township. A search of the site revealed 6 kilograms of morphine, 86.2 liters of ether, 229.64 liters of other precursor chemicals, and several weapons.

-- On July 19, 2003, Burmese authorities located and dismantled a clandestine heroin refinery near Theinni township. A search of the site revealed 10.28 kilograms of opium, 5.6 kilograms of heroin, 141.96 kilograms of poppy seeds, and 1,795.7 liters of precursor chemicals. Authorities arrested five suspects.

-- On July 31, 2003, Burmese authorities located and dismantled a clandestine heroin refinery near Kutkai township. A search of the site resulted in the seizure of 36.4 kilograms of opium, 62.45 kilograms of heroin, 2352.6 liters of ether, 3102.6 liters of chloroform, and a cache of weapons and ammunition.

-- On August 1, 2003, Burmese authorities in Mandalay seized approximately 153 kilograms of ephedrine and arrested two suspects.

-- On August 21, 2003, Burmese authorities seized approximately 529,800 methamphetamine tablets, a cache of weapons, and ammunition and arrested one suspect.

- On August 24, 2003 Burmese police cooperated with Thai authorities in Chiang Mai, Thailand on the seizure of 500,000 methamphetamine tablets, four firearms, and three suspects (the three suspected drug traffickers died while in detention).

20. Arrests and Prosecutions: In 2003, Burma arrested 3,336 suspects on drug related charges, according to official

statistics. In addition, the GOB arrested nine United W State Army (UWSA) officers in August 2003.

121. Refineries. The government dismantled 7 heroin labs through the first ten months of 2003, compared to 17 from the entire previous year. The GOB destroyed no meth labs in 2003, although 6 were destroyed in 2002.

122. Eradication. The government eradicated more than 21,000 hectares (51,892 acres) of opium poppy over the past three crop years. However, only 683 hectares were destroyed during the 2002/03 crop year, a mere fraction of the 10,466 hectares destroyed during the 2001/02 crop year and the 10,568 hectares destroyed during the 2000/01 crop year.

Nonetheless, overall eradication accounts for almost one-third of the reduction in area under poppy cultivation since 2001. In addition, during the first ten months of 2003 the government burned 164,000 kilos of poppy seeds capable of seeding more than 40,570 hectares (100,250 acres). The destruction of those seeds, together with law enforcement actions, reduced the area under opium cultivation by more than one third in 2003.

Law Enforcement Measures. The Central Committee for Drug Abuse Control (CCDAC)--which is comprised of personnel from various security services, including the police, customs, military intelligence, and the army--leads drug-enforcement efforts in Burma. CCDAC now has 18 drug-enforcement task forces around the country, with most located in major cities and along key transit routes near Burma's borders with China, India, and Thailand. As is the case with most Burmese government entities, CCDAC suffers badly from a lack of adequate resources to support its law-enforcement mission.

123. Burma's 1993 Narcotic Drugs and Psychotropic Substances Law provide the legal framework for the country's law enforcement efforts. As demanded by the 1988 UN Drug Convention, that law contains legal tools for addressing narcotics-related money laundering, the seizure of drug-related assets, and the prosecution of drug conspiracy cases. The State Peace and Development Council passed a broader "Control of Money Laundering Law" in 2002 and in December 2003 issued regulations to implement the law.

124. In November 2003, the Financial Action Task Force (FATF) called upon member countries to impose countermeasures against Burma for its failure, among other shortcomings, to issue regulations to implement its 2002 money laundering statute or to pass a mutual legal assistance law. With assistance from UNODC, the Burmese government is in the process of drafting a legal assistance law and, if passed and enacted, could create a framework for judicial and law enforcement cooperation across borders in the prosecution of money laundering and other cases.

125. In 2002, the government, having established a police and military intelligence presence in the ethnic Wa territories, demanded that the Wa, the Kokang Chinese, and other cease-fire groups issue new counternarcotics decrees. Those decrees outlawed participation in any aspect of the narcotics trade. The GOB also demanded and received cooperation from the UWSA in bringing to heel several major fugitives wanted by China. In addition, it has closed down the liaison offices of armed groups like the UWSA, and of companies associated with those groups in Tachileik, Myawaddy, and other towns on the Thai/Burmese border. In December 2003, the GOB announced an investigation of two private banks associated with the Wa (Asia Wealth and Myanmar Mayflower), identified by the United States as entities of "primary money laundering concern."

126. The GOB continued efforts to hold cease-fire groups to their pledges to end opium production in their territories. U Sai Lin's Special Region No. 4 around Mong La has been opium-free since 1997 and the Wa are maintaining their pledge to eliminate opium by the end of the 2005 harvest. However, according to the 2003 joint U.S./Burma opium yield survey, poppy cultivation increased in the Wa Special Region by over 5,500 hectares and the area now accounts for 52 percent of Burma's total poppy crop. The Kokang Chinese missed their opium-free target (scheduled for the year 2000), and extended their deadline to 2003. Although much of the opium crop has now been eliminated, the Kokang paid a heavy price in terms of increased attention from both the Burmese and the Chinese police. Several of the ethnic trafficking armies also control amphetamine production labs and extensive trafficking operations. These remain largely intact and are a major factor in amphetamine trafficking in Southeast Asia and beyond.

127. The government continued its crackdown begun in 2001 on the array of militias (some government-sponsored village defense forces, and others the remnants of former insurgent bands) that the government had previously allowed to cultivate opium in the Kutkai-Lashio region of northern Shan State. According to military intelligence officials, with peace now prevailing in most of the countryside and the government no longer in need of the local security services



these groups provided, steps are now being taken to slowly scale back their privileges, including the right to grow and traffic in opium.

128. In 2003, for the third-consecutive year, Burma's opium poppy crop declined. The latest crop was 36 percent below the previous year's level and the smallest crop in ten years. According to USG imagery-based estimates, about 47,130 hectares of crop was cultivated during the 2002-2003 growing seasons, down from 77,700 in 2001-2002. 2003 was also the first year that weather was not a major factor accelerating the drop in cultivation level. Sources of the large decline included law enforcement, a conscious shift away from opium to synthetic drugs by the region's drug lords, and localized alternative development success.

129. Corruption. There is no reliable evidence that senior officials in the Burmese Government are directly involved in the drug trade. However, lower level officials, particularly army and police personnel posted in outlying areas, have been prosecuted for drug abuse and/or narcotics-related corruption. According to the Burmese government, over 200 police officials and 48 Burmese Army personnel were punished for narcotics-related corruption or drug abuse between 1995 and 2003. Of the 200 police officers, 130 were imprisoned, 16 were dismissed from the service, 7 were forced to retire, and 47 were demoted. No Burma Army officer over the rank of full Colonel has ever been prosecuted for drug offenses in Burma. This fact, the prominent role in Burma of notorious narcotics traffickers (e.g. the Lo Hsing Han clan, Khun Sa, Wei Hsueh Kang, etc.), and the continuance of large-scale narcotics trafficking over years of intrusive military rule have given rise to speculation that some senior military leaders protect or are otherwise involved with narcotics traffickers.

130. Agreements and Treaties. Burma is a party to the 1961 UN Single Convention, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. In September 2003 the amended 1971 UN Protocol on Psychotropic Substances took effect in Burma. In addition, Burma is also one of six nations (Burma, Cambodia, China, Laos, Thailand, Vietnam) that are parties to UNODC's sub-regional action plan for controlling precursor chemicals and reducing illicit narcotics production and trafficking in the highlands of Southeast Asia. In 2003, the Chinese and Thai governments stepped up bilateral counterdrug cooperation efforts with Burma and, with the GOB, established joint Border Liaison Offices (BLO) along their respective borders to facilitate the sharing of intelligence.

131. Cooperation with Thailand in particular increased considerably in 2003 as the Thai government pursued an aggressive domestic "drug-free" policy. Thai cabinet-level officials visited Burma several times during the year to discuss counterdrug cooperation with senior leaders of the Burmese military government. Burma's 2001 MOU with Thailand commits both countries to closer police cooperation in narcotics control and they subsequently established joint "narcotics suppression coordination stations" in the Chiang Rai/Tachileik, Mae Sot/Myawaddy, and Ranong/Kawthoung border areas. In addition, Thailand implemented a 20 million baht (about \$440,000) new alternative development program in the Southern Military Region of Shan State, which is now occupied by the United Wa State Army. In December, the Burmese and Thai Prime Ministers met in Shan State to review the project and to discuss counternarcotics cooperation,

132. While not formally funding alternative development programs, the Chinese government has encouraged investment in many projects in the Wa area, particularly in commercial enterprises such as tea plantations and pig farms and has assisted in marketing those products in China through relaxation of duty taxes.

133. Cultivation and Production. According to the 2003 U.S./Burma Joint Opium Yield Survey, opium production declined in Burma for the seventh straight year. The survey found that the maximum potential yield for opium in Burma in 2003 totaled 484 metric tons, down 146 metric tons (or approximately 23 percent) from 2002. Over the past seven years, opium production in Burma has declined by more than 81 percent, from an estimated 2,560 metric tons in the peak year of 1996 to 484 metric tons in 2003. The area under cultivation has dropped by almost two-thirds, from 163,100 hectares in 1996 to approximately 47,130 hectares in 2003. Yields have similarly been reduced, from an estimated 17 kilograms per hectare in 1996 to about 10.3 kilograms per hectare in 2003. However, the 2003 opium/hectare yield rate increased by about 18 percent from the previous year, reflecting favorable weather and more intense cultivation in Wa areas.

134. Results from a UNODC-sponsored census survey throughout Shan State in 2003 largely corroborated the results of the

U.S./Burma Joint Opium Yield Survey. According to UNODC, the area under poppy cultivation in 2003 declined by 23 percent from the previous year and by 62 percent since 1996. For its 2003-04 opium survey, the UNODC's Illicit Crop Monitoring Program (ICMP) will be extended to cover areas in Kachin and Chin States and Sagaing Division, in addition to the entire Shan State.

135. Drug Flow/Transit. Most ATS and heroin in Burma is produced in small, mobile labs located in the Burma/China and Burma/Thailand border areas, primarily in territories controlled by active or former insurgent groups. A growing amount of methamphetamine is reportedly produced in labs co-located with heroin refineries in areas controlled by the United Wa State Army (UWSA), the Kokang Chinese, and the Shan State Army-South (SSA-S). Heroin and methamphetamine produced by these groups are trafficked primarily through China, Thailand, India and, to a lesser extent, Laos, Bangladesh, and Burma itself.

136. Precursors for refining these narcotic drugs are primarily produced in India, China, and Thailand. Burma does not have a chemical industry and does not produce ephedrine, acetic anhydride, or any of the other chemicals required for the narcotics trade. Similarly, the major markets for all of these narcotic drugs lie in neighboring states. However, there were signs in 2003 that Burma's small domestic market for drug consumption grew, especially the consumption of ATS.

137. Demand Reduction. The overall level of drug abuse is low in Burma compared with neighboring countries. According to the GOB, there are only about 70,000 "officially registered" drug abusers in Burma. This is undoubtedly an underestimate, and even the UNODC estimates that there may be no more than 300,000 people (still less than 1 percent of the population) who abuse drugs in Burma. Most, particularly among the older generation, use opium, but use of heroin and synthetic drugs is rising, particularly in urban and mining areas. NGOs and community leaders reported growing numbers of disaffected youth using heroin and ATS, particularly in ethnic minority areas.

138. Burmese demand reduction programs are in part coercive and in part voluntary. Addicts are required to register with the GOB and can be prosecuted if they fail to register and accept treatment. Altogether, more than 21,000 addicts were prosecuted for failing to register between 1994 and 2003. Demand reduction programs and facilities are strictly limited, however. There are six major drug treatment centers under the Ministry of Health, 49 other smaller detox centers, and eight rehabilitation centers which, together, have reportedly provided treatment to about 55,000 addicts (UPDATE to include 2003 figures) over the past ten years. There are also a variety of narcotics awareness programs conducted through the public school system. According to UNODC, approximately 1,200 high school teachers participated in seminars, training programs, and workshops connected with these programs in 2001. In addition, the government has established demand reduction programs in cooperation with NGOs. These include programs with CARE Myanmar, World Concern, and Population Services International (PSI), all of which focus on injecting drug use as a factor in the spread of HIV/AIDS.

#### IV. U.S. Policy Initiatives and Programs

139. Policy and Programs. The USG has suspended direct counternarcotics assistance to Burma since 1988, when the Burmese military began its suppression of the pro-democracy movement. The USG now engages the Burmese government in regard to narcotics control only on a very limited level. DEA, through the U.S. Embassy in Rangoon, shares drug-related intelligence with the GOB and conducts joint drug-enforcement investigations with Burmese counternarcotics authorities. Other U.S. agencies conducted opium yield surveys in the mountainous regions of the Shan State in 1993 and 1995 and annually from 1997 through 2003 with essential assistance provided by Burmese counterparts. These surveys give both governments an accurate understanding of the scope, magnitude, and changing geographic distribution of Burma's opium crop.

140. The U.S. Government regularly urges the Burmese government to take additional steps to curb narcotics production and trafficking. Specifically, the USG has encouraged the Burmese government to:

- Comply with the provisions of UN Drug Conventions by taking demonstrable and verifiable actions against high level drug traffickers and their organizations;

- Increase opium eradication and significantly increase seizure rates for opium, heroin, and methamphetamines; control the diversion of precursor chemicals; and destroy significantly more heroin and methamphetamine laboratories;

-- Continue cooperation with China and Thailand and expand cooperation to other neighboring countries such as India;

-- Enforce existing money laundering laws, including asset forfeiture provisions, and fully implement and enforce Burma's new money laundering legislation;

-- Prosecute drug-related corruption, especially corrupt government and military officials who facilitate drug trafficking and money laundering; and

-- Expand demand reduction, prevention, and drug treatment programs to reduce drug use and control the spread of HIV/AIDS.

141. The Road Ahead. The Burmese government has committed itself in recent years to expanded counternarcotics measures and has made significant gains in reducing opium poppy cultivation and opium production. The GOB has enlisted major regional allies (particularly China and Thailand) in this fight, and has built up the capacity to identify and punish drug traffickers and major trafficking organizations, even within the context of very limited resources. Based on experience in dealing with significant narcotics-trafficking problems elsewhere in the world, the USG recognizes that large-scale and long-term international aid-including development assistance and law-enforcement aid-would help curb drug production and trafficking in Burma. However, recurring human rights problems have limited international support of all kinds, including support for Burma's law enforcement efforts.

142. The USG believes that the Government of Burma should continue to reduce opium cultivation and production, combat corruption, enforce its narcotics and money-laundering legislation, and deal with drug abuse. Its efforts to date have produced measurable results. The USG strongly urges the GOB to sustain and intensify those efforts so that its counternarcotics efforts are commensurate with the scope of the problem. The USG also urges the GOB to take efforts to combat the production and trafficking of ATS and to stem the growth of a domestic market for the consumption ATS before this problem becomes more significant. Burma should expand its law-enforcement campaign to the most prominent trafficking groups and their leaders. In addition, the USG encourages the GOB to continue its expanded efforts to cooperate with other countries in the region. Continued and intensified, these efforts could lead to a sustained reduction in all forms of narcotics production and trafficking from an area that has been one of the world's major drug trafficking centers.

143. Statistical information: Tables e-mailed to INL/AAE and EAP/BCLTV on 12/19/03.

#### Financial Crimes/Money Laundering

##### Suspicious activity reports:

144. Burma. (For UPDATE in Washington). An analysis by FinCEN of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, revealed that there were eight SARs that could be linked to transactions associated with Burma. Most of the reported activity involved suspicious wire transfer activity to or from Burma or involved a citizen of Burma. SARs reported wire transfers originating in Tokyo, Hong Kong, and Singapore flowing into the United States and sent by individuals using Burmese passports for identification. Banks identified the activity as suspicious due to a lack of information linking the activity to legitimate funds. Additional activity reported on the SARs included structured cash deposits made by Burmese citizens in an apparent attempt to avoid BSA filing requirements.

145. Burma. Renamed the Union of Myanmar by its ruling junta, Burma has a mixed economy with substantial state-controlled activity--mainly in energy, heavy industry, and forestry--and with private activity dominant in agriculture, light industry, and transport. Burma's economy continues to be vulnerable to drug money laundering due to its under-regulated financial system, weak anti-money laundering regime, and policies that facilitate the funneling of drug money into commercial enterprises and infrastructure investment.

146. On November 3, 2003, the Financial Action Task Force (FATF) called upon member countries, including the United States, to impose countermeasures against Burma for its failure to pass a mutual legal assistance law and to issue regulations to accompany the June 2002 "Control of Money Laundering Law" (State Peace and Development Council Law No. 6/2002). The United States took immediate action on FATF's request, issuing on November 18 two proposed rules that would declare Burma, and two private banks (Asia Wealth and Myanmar Mayflower) entities of "primary money laundering concern."



147. When adopted, the rules, to be issued pursuant to the 2001 USA PATRIOT Act, will "prohibit covered financial institutions from establishing, maintaining, administering, or managing in the United States any correspondent or payable-through account for, or on behalf of", the two named banks or any other Burmese financial institution. The rules will also prohibit any correspondent account maintained for any foreign bank if the account is used to provide banking services indirectly to the two named banks or any other Burmese financial institution. The U.S. Treasury Department, under existing sanctions, already advises U.S. financial institutions to give enhanced scrutiny to all financial transactions relating to Burma.

148. Unexpectedly, and perhaps in response to FATF pressure, the Burmese government released the long-awaited money laundering regulations on December 5, 2003. The regulations track closely with the 2002 law and, on paper, create many of the tools necessary for gains in addressing money laundering. The regulations lay out eleven predicate offenses including narcotics activities, human and arms trafficking, smuggling, counterfeiting, hijacking, cyber crime, illegally operating a financial institution, and "offenses committed by acts of terrorism."

149. Burma's 1993 Narcotics Drugs and Psychotropic Substances Law only criminalized narcotics-related money laundering. The December 2003 regulations are more comprehensive and reprise the 1993 law's requirement of suspicious transaction reporting for banks, realtors, and customs officials. The new regulations also impose severe penalties for transgressors of the law, but do not yet set a threshold limit or include a specific timetable for required submission of suspicious transaction reports (STRs), beyond "without delay." Money laundering is punishable by imprisonment, and the regulations will be applied retroactively to June 2002 once threshold amounts are established.

150. The 2003 money-laundering regulations task the government's Central Control Board on Money Laundering to form the Burmese Financial Intelligence Unit (FIU), which may conduct investigations into money laundering cases based on STRs. The Central Control Board, chaired by the Minister for Home Affairs, will enforce the legislation. The Board will set policy, direct the Investigation Body (that performs money laundering investigations and conducts seizures), direct the Preliminary Scrutiny Body (that ensures due process and finalizes the case), cooperate with other international money laundering groups, and organize investigation teams. The legislation provides full access to all financial records for investigators from the FIU. The UNODC is assisting the Burmese government in its efforts to draft a mutual legal assistance framework.

151. Burma is an observer jurisdiction to the Asia/Pacific Group on Money Laundering and a party to the 1988 UN Drug Convention. Over the past several years, the Government of Burma (GOB) has significantly extended its counternarcotics cooperation with other states. The GOB has bilateral drug control agreements with India, Bangladesh, Vietnam, Russia, Laos, the Philippines, China, and Thailand. In 2002-2003, Burma expanded cooperation with Thailand and China to jointly combat trafficking in drugs and precursor chemicals in northern and eastern Shan State. Burma has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism (CONFIRM). Burma has not signed or ratified the UN Convention against Transnational Organized Crime, which entered into force on September 29, 2003. Currently, Burma does not provide significant mutual legal assistance or cooperation to overseas jurisdictions in the investigation and prosecution of serious crimes.

152. Burma must increase the regulation and oversight of its banking system, and end policies that facilitate the investment of drug money in the legitimate economy. Burma should ensure its money laundering law is enforced fairly and thoroughly. The GOB should also criminalize the financing and support of terrorism. Burma should provide the necessary resources to the administrative and judicial authorities that supervise the financial sector and enforce the financial regulations to successfully fight money laundering.

McMullen